

**ANNUAL USE OF CAPITAL SURVEY - 2009****NAME OF INSTITUTION**

(Include Holding Company Where Applicable)

Northway Financial, Inc.

Person to be contacted regarding this report:	Richard P. Orsillo
CPP Funds Received:	\$10,000,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	1/30/2009
Date Repaid <sup>1</sup> :	

RSSD: (For Bank Holding Companies)	2582827
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	
City:	Berlin
State:	New Hampshire

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

*American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.*

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	Refer to last box for response
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<input checked="" type="checkbox"/> To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Refer to last box for response
<input checked="" type="checkbox"/> Increase securities purchased (ABS, MBS, etc.).	Refer to last box for response
<input checked="" type="checkbox"/> Make other investments	Refer to last box for response
<input checked="" type="checkbox"/> Increase reserves for non-performing assets	Refer to last box for response

<input checked="" type="checkbox"/>	Reduce borrowings	Refer to last box for response
<input checked="" type="checkbox"/>	Increase charge-offs	As noted above, Northway's net charge-offs increased to \$1.0 million in 2009 from \$560,000 in 2008. Gross charge-offs, principally from the hospitality sector, amounted to \$1.2 million in 2009 compared to \$706,000 in 2008.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	N/A
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Refer to last box for response.

What actions were you able to avoid because of the capital infusion of CPP funds?

In 2009, Northway experienced record deposit growth and very strong loan demand. We believe this growth came about as many individuals, businesses and municipalities saw the Bank as a safe harbor as consumers moved to community banks, in what has been described nationally as a "flight to quality." We are extremely pleased that Northway is being perceived by new customers as their bank of choice.

The CPP funds helped us to support this record growth. Without the CPP funds we may have needed to raise additional capital in an economic time when the options for community banks to raise capital were somewhat limited.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The additional capital levels not only allowed Northway to meet the needs of an expanded customer base, it also allowed us to work with those borrowers who were experiencing difficulty in making loan payments. These activities, we believe, are consistent with the U.S. Treasury's objectives. We are also pleased that the U.S. Treasury's investment in Northway has contributed to our ability to increase lending to individuals, businesses and municipalities in the market we serve.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds. In 2009, the Bank took the lead in establishing a state-wide Foreclosure Prevention Mortgage Refinance Program. This pilot program is designed to provide financial assistance to borrowers who are experiencing difficulty in making loan payments. The Program has been arranged with the assistance of the State of New Hampshire's Community Development Finance Authority, which grants tax credits to the participating financial institutions. The Program has gained enthusiastic support from many other New Hampshire banks, and pledges of at least \$500,000 have been received to support this program. Northway takes pride in having put forward this concept of how to further help New Hampshire borrowers who need assistance. The Bank not only took the lead in establishing this program, its portion of the total pledge is \$150,000. \$50,000 of which was donated in 2009 with the balance committed to be donated in 2010. Increase lending or reduce lending less than otherwise would have occurred. On January 30, 2009, Northway Financial, Inc. ("Northway") received CPP funding, resulting from the issuance of CPP capital, in the amount of \$10,000,000. This additional capital afforded Northway, through its affiliate Northway Bank (the "Bank"), to continue to expand its lending activities. During 2009, Northway Bank originated and closed \$244.6 million in total loan volume. To the extent the funds supported increased lending, please describe the major types of loans, if possible. Despite softening loan demand in the commercial sector, in 2009 as noted above, the Bank originated and closed loans totaling \$244.6 million. 2009 was noteworthy for the Bank, as the origination of loans secured by residential real estate was an all-time record for the Bank. The Bank also had a strong year in the origination of commercial loans, commercial real estate loans and municipal loans. The following is a summary of 2009 loan originations by major category:

- Loans secured by residential real estate including loans sold to Freddie Mac, and home equity loans totaled \$111.3 million (45.6% of total originations).
- Commercial loans originated, including lines of credit, were \$52.8 million.
- Commercial real estate loans originated were \$42.2 million.
- Municipal loans originated were \$34.8 million
- Consumer loans originated were \$3.5 million.

Increased securities purchased Driven by record deposit growth and the need to have a balance between loans and investments, In 2009, Northway purchased securities totaling \$91.8 million of which \$47.0 million (51%) was invested in Mortgage-Backed Securities issued by U.S. Government Agencies and U.S. Government Sponsored Enterprises. Of the \$91.8 million purchased, \$53.7 million was reinvested from the proceeds of investments that matured, were called or sold. The investment in the above referenced Mortgage-Backed Securities in combination with the record level of loans secured by residential real estate originated, clearly demonstrates Northway's commitment to the housing sector since receipt of CPP funding.

Make other investments. Recently the Bank applied for two new branches, one located in Meredith, NH and the other in Concord, NH; and was granted approval by the F.D.I.C. and the State of New Hampshire Bank Commissioner's Office to open them. Plans are underway and we expect to open the Concord branch in the summer of 2010 and the Meredith branch in the fall of 2010. The Bank's projected capital investment in these two new locations is approximately \$2.0 million

Increase reserves for non-performing assets. At December 31, 2009, Northway's total nonperforming assets were \$ 18.8 million, compared to the December 31, 2008 level of \$11.2 million. This increase of \$7.6 million is reflective of the prolonged recession and its impact on the hospitality segment of the Bank's commercial real estate loan portfolio and the addition of a Pooled Trust Preferred Security held in the Bank's investment portfolio. 2009 was a year in which we watched unfolding events in the national economy with great concern. As a result, we increased the oversight of our loan portfolio. Although the national economy did struggle in what is described as the "Great Recession," New Hampshire was in somewhat better shape. Our loan portfolio, while not without issues, did better than expected. Northway's loan portfolio increased by \$27.5 million (5.0%) from year-end 2008 to \$586.9 million at December 31, 2009. As a percentage of loans outstanding, the allowance for loan losses at year-end 2009 was 1.38% compared to 1.27% a year ago. At December 31, 2009, Northway's allowance for loan losses was \$8.1 million, \$1.1 million more than at December 31, 2008. In 2009, net loan charge-offs totaled \$1.0 million, compared to \$560,000 in 2008. Its provision for loan losses increased to \$2.1 million from \$1.4 million in 2008.

Reduce borrowings CPP capital afforded the Bank the opportunity, in mid-2009, to pre-pay \$12.0 million of Federal Home Loan Bank term advances. The weighted average rate on these advances was 4.9%; the pay-back period, taking into account the prepayment penalty of \$398,000 for the one-time expense, extended into 2010. Although it had a negative impact on 2009 earnings, it will be more than offset during the first half of 2010.

Held as non-leveraged increase in capital At December 31, 2008, Northway's leverage ratio was 6.19%. It should be noted that in the last half of 2008 the Bank wrote-down its \$6.0 million investment in Fannie Mae and Freddie Mac preferred stock. On September 7, 2008, the U.S. Treasury and the Federal Housing Finance Agency took action to protect financial markets and taxpayers which in effect rendered these investments worthless. The total pre-tax write-down to the income statement was \$5.9 million, substantially all of which was recorded at the end of the third quarter. The after-tax impact of this write-down was a \$3.5 million loss, which reduced the year-end leverage ratio by .49%.

During 2009 Northway continued to focus on the needs of an expanding customer-base while generating earnings of \$2.0 million. Its retail funding base, primarily deposits, grew from \$581.0 million as of December 31, 2008 to \$664.3 million at December 31, 2009. This \$83.3 million increase represents a growth rate of 14.3%. As a result, Northway's leverage ratio at December 31, 2009 was 7.82% and approximately one-half of the CPP capital or \$5.0 million was non-leveraged as of year-end 2009.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.